

# On Measurement Bias in Causal Inference

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## Abstract

This paper highlights several areas where graphical techniques can be harnessed to address the problem of measurement errors in causal inference. In particular, the paper discusses the control of partially observable confounders in parametric and non parametric models and the computational problem of obtaining bias-free effect estimates in such models.

## 1 Introduction

This paper discusses methods of dealing with measurement errors in the context of graph-based causal inference. My motivation for tackling this problem was sparked by a remarkable result that I discovered a few months ago in (Greenland and Lash, 2008),<sup>1</sup> which I believe should open new vistas of possibilities for graphical modelers.

Consider the problem of estimating the causal effect of  $X$  on  $Y$  when a sufficient set  $Z$  of confounders can only be measured with error (see Fig. 1), via a proxy set  $W$ . Since  $Z$  is assumed sufficient, the causal effect is identified from measurement on  $X, Y$ , and  $Z$ , and can be written

$$P(y|do(x)) = \sum_z P(y|x, z)P(z) \quad (1)$$

However, if  $Z$  is unobserved, and  $W$  is but a noisy measurement of  $Z$ ,  $d$ -separation tells us immediately that adjusting for  $W$  is inadequate, for it leaves the back-door path(s)  $X \leftarrow Z \rightarrow Y$  unblocked.<sup>2</sup> Therefore, regardless of sample size, the effect of  $X$  on  $Y$  cannot be estimated without bias. It turns out, however, that if we are given the conditional probabilities  $P(w|z)$  that govern the error mechanism we can perform a modified-adjustment for  $W$  that, in the limit of very large sample, would amount to the same thing as observing and adjusting for  $Z$  itself, thus rendering the causal effect identifiable.

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<sup>1</sup>Earlier works include Greenland and Kleinbaum (1983); Selén (1986); and Greenland (1988).

<sup>2</sup>For concise definitions and descriptions of graphical concepts such as “ $d$ -separation” and “back-door” see Pearl, 2009, pp. 335–6, 344–5.

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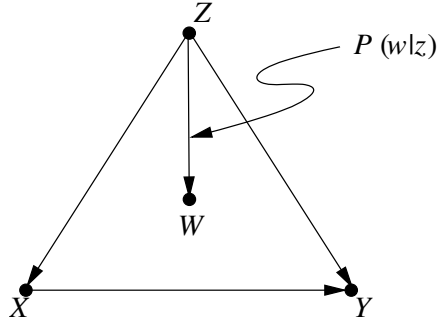


Figure 1: Needed the causal effect of  $X$  on  $Y$  when  $Z$  is unobserved, and  $W$  provides a noisy measurement of  $Z$ .

The possibility of removing bias by modified adjustment came as a surprise to me, because, although  $P(w|z)$  is assumed given, the actual value of the confounder  $Z$  remains uncertain for each measurement  $W = w$ , so one would expect to get either a distribution over causal effects, or bounds thereof. Not so; we actually get a repaired point estimate of  $P(y|do(x))$  that is asymptotically unbiased.

This remarkable result, which I will label “effect restoration,” has powerful consequences in practice because, when  $P(w|z)$  is not given, one can resort to a Bayesian (or bounding) analysis and assume a prior distribution (or bounds) on the parameters of  $P(w|z)$  which would yield a distribution (or bounds) over  $P(y|do(x))$  (Greenland, 2007). Alternatively, if costs permit, one can estimate  $P(w|z)$  by re-testing  $Z$  in a sampled subpopulation.<sup>3</sup>

On the surface, the possibility of correcting for measurement bias seems to undermine the importance of accurate measurements. It suggests that as long as we know how bad our measurements are there is no need to correct them because they can be corrected post-hoc by analytical means. This is not so. First, although an unbiased effect estimate can be recovered from noisy measurements, sampling variability increases substantially with error. Second, even assuming unbounded sample size, the estimate will be biased if the postulated  $P(w|z)$  is incorrect.<sup>4</sup>

Effect restoration can be analyzed from either a statistical or causal viewpoint. Taking the statistical view, one may argue that, once the effect  $P(y|do(x))$  is identified in terms of a latent variable  $Z$  and given the estimand in (1), the problem is no longer one of causal inference, but rather of regression analysis, whereby the regressional expression  $E_z P(y|x, z)$  need to be estimated from a noisy measurement of  $Z$ , given by  $W$ . This is indeed the approach taken in the vast literature on measurement error (e.g., (Selén, 1986; Carroll et al., 2006)).

The causal analytic perspective is different; it maintains that the ultimate purpose of

<sup>3</sup>In the literature on measurement errors and sensitivity analysis, this sort of exercise is normally done by re-calibration techniques (Greenland and Lash, 2008). The latter employs a “validation study” in which  $Z$  is measured without error in a subpopulation and used to calibrate the estimates in the main study (Selén, 1986).

<sup>4</sup>In extreme cases, wrongly postulated  $P(w|z)$  may conflict with the data, and no estimate will be obtained. For example, if we postulate a non informative  $W$ ,  $P(w|z) = P(w)$ , and we find that  $W$  strongly depends on  $X$ , a contradiction arises and no effect estimate will emerge.

the analysis is not the statistics of  $X, Y$ , and  $Z$ , as is normally assumed in the measurement literature, but a causal quantity  $P(y|do(x))$  that is mapped into regression vocabulary only when certain causal assumptions are deemed plausible. Moreover, the very idea of modeling the error mechanism  $P(w|z)$  requires causal considerations; errors caused by noisy measurements are fundamentally different from those caused by noisy agitators. Indeed, the reason we seek an estimate  $P(w|z)$  as opposed to  $P(z|w)$ , be it from judgment or from pilot studies, is that we consider the former to be a more reliable and transportable parameter than the latter. Transportability is a causal notion that is hardly touched upon in the statistical measurement literature.

Viewed from this perspective, the measurement error literature appears to be engaged (unwittingly) in a causal inference exercise that can benefit substantially from making the causal framework explicit. The benefit can in fact be mutual; identifiability with partially specified causal parameters (as in Fig. 1) is rarely discussed in the causal inference literature (notable exceptions are (Hernán and Cole, 2009) and (Cai and Kuroki, 2008)), while graphical models are hardly used in the measurement error literature.

In this paper we will consider the mathematical aspects of effect restoration and will focus on asymptotic analysis. Our aims are to understand the conditions under which effect restoration is feasible, to assess the computational problems it presents, and to identify those features of  $P(w|z)$  and  $P(x, y, w)$  that are major contributors to measurement bias, and those that contribute to robustness against bias.

## 2 Effect Restoration by Matrix Adjustment

The main idea, adapted from (Greenland and Lash, 2008, p. 360), is as follows: Starting with the joint probability  $P(x, y, z, w)$ , and assuming that  $W$  depends only on  $Z$ ,<sup>5</sup> i.e.,

$$P(w|x, y, z) = P(w|z) \tag{2}$$

we write

$$\begin{aligned} P(x, y, w) &= \sum_z P(x, y, z, w) \\ &= \sum_z P(w|x, y, z)P(x, y, z) \\ &= \sum_z P(w|z)P(x, y, z) \end{aligned}$$

For each  $x$  and  $y$ , we can interpret the transformation above as a vector-matrix multiplication:

$$V(w) = \sum_z M(w, z)V(z)$$

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<sup>5</sup>This assumption goes under a rather strange rubric: “non-differential error” (Carroll et al., 2006).

where  $V(w) = P(x, y, w)$  and  $M(w, z)$  is a stochastic matrix (i.e., the entries in each row are non-negative and sum to one). It is well known that, under fairly broad conditions,  $M$  has an inverse (call it  $I$ ), which allows us to write:

$$P(x, y, z) = \sum_w I(z, w)P(x, y, w) \quad (3)$$

We are done now, because (3) enables us to reconstruct the joint distribution of  $X, Y$ , and  $Z$  from that of the observed variables,  $X, Y$ , and  $W$ . Thus, each term on the right hand side of (1) can be obtained from  $P(x, y, w)$  through (3) and, assuming  $Z$  is a sufficient set (i.e., satisfying the back-door test),  $P(y|do(x))$  is estimable from the available data. Explicitly, we have:

$$\begin{aligned} P(y|do(x)) &= \sum_z P(y, z, x)P(z)/P(x, z) \\ &= \sum_z \sum_w I(z, w)P(x, y, w) \frac{\sum_{xyw} I(z, w)P(x, y, w)}{\sum_{wy} I(z, w)P(x, y, w)} \\ &= \sum_z \sum_w I(z, w)P(x, y, w) \frac{\sum_w I(z, w)P(w)}{\sum_{wy} I(z, w)P(x, w)} \end{aligned} \quad (4)$$

Note that the same inverse matrix,  $I$ , appears in all summations. This will not be the case when we do not assume independent noise mechanisms. In other words, if (2) does not hold, we must write:

$$\begin{aligned} P(x, y, w) &= \sum_z P(w|x, y, z)P(x, y, z) \\ &= \sum_z M_{xy}(w, z)P(x, y, z) \end{aligned}$$

where  $M_{xy}$  and its inverse  $I_{xy}$  are both indexed by the specific values of  $x$  and  $y$ , and we then obtain:

$$P(x, y, z) = \sum_w I_{xy}(z, w)P(x, y, w) \quad (5)$$

which, again, permits the identification of the causal effect via (5) except that the expression becomes somewhat more complicated. It is also clear that errors in the measurement of  $X$  and  $Y$  can be absorbed into a vector  $W$ , and do not present any conceptual problem.

Equation (4) demonstrates the feasibility of effect reconstruction and proves that, despite the uncertainty in the variables  $X, Y$  and  $Z$ , the causal effect is identifiable once we know the statistics of the error mechanism.

This result is reassuring, but presents practical challenges of both representation, computation and estimation. Given the potentially high dimensionality of  $Z$  and  $W$ , the parameterization of  $I$  would in general be impractical or prohibitive. However, if we can assume independent local mechanisms,  $P(w|z)$  can be decomposed into a product  $P(w|z) = P(w_1|z_1)P(w_2|z_2), \dots, P(w_k|z_k)$  which renders  $I$  decomposable as well. Even when full decomposition is not plausible, sparse couplings between the different noise mechanisms would enable parsimonious parameterization using, for example, Bayesian networks.

The second challenge concerns the summations in Eq. (4) which, taken literally, calls for exponentially long summation over all values of  $w$ . In practice, however, this can be

mitigated since, for any given  $z$ , there will be only small number of  $w$ 's for which  $I(z, w)$  is non-negligible. This computation, again, can be performed efficiently using Bayes networks inference.

This still would not permit us to deal with the problem of empty cells which, owed to the high dimensionality of  $Z$  and  $W$  would prevent us from getting reliable statistics of  $P(x, y, w)$ , as required by (4). One should resort therefore to propensity score ( $PS$ ) methods, which map the cells of  $Z$  onto a single scalar.

The error-free propensity score  $L(z) = P(X = 1|Z = z)$  being a functional of  $P(x, y, z)$  can of course be estimated consistently from samples of  $P(x, y, w)$  using the transformation (3). Explicitly, we have:

$$\begin{aligned} L(z) &= P(X = 1|Z = z) \\ &= P(X = 1, Z = z)/P(z) \\ &= \sum_y P(X = 1, y, z) / \sum_{xy} P(x, y, z) \end{aligned}$$

where  $P(x, y, z)$  is given in (4).

Using the decomposition in (2), we can further write:

$$\begin{aligned} L(z) &= \sum_y P(X = 1, y, z) / \sum_{xy} P(x, y, z) \\ &= \sum_w I(z, w) P(X = 1, w) / \sum_w I(z, w) P(w) \\ &= \sum_w I(z, w) L(w) P(w) / \sum_w I(z, w) P(w) \end{aligned} \tag{6}$$

where  $L(w)$  is the error-prone propensity score

$$L(w) = P(X = 1|W = w).$$

We see that  $L(z)$  can be computed from  $I(z, w)$ ,  $L(w)$  and  $P(w)$ . Thus, if we succeed in estimating these three quantities in a parsimonious parametric form, the computation of  $L(z)$  would be hindered only by the summations called for in (5). Once we estimate  $L(w)$  parametrically for each conceivable  $w$ , Eq. (9) permits us to assign to each tuple  $z$  a bias-less score  $L(z)$  that correctly represents the probability of  $X = 1$  given  $Z = z$ . This, in turn, should permit us to estimate, for each stratum  $L = l$ , the probability

$$P(l) = \sum_{z|L(z)=l} P(z)$$

then compute the causal effect using

$$P(y|do(x)) = \sum_l P(y|x, l)P(l).$$

One technique for approximating  $P(l)$  was proposed by Stürmer et al. (2005), which did not make full use of the inversion in (9) or of graphical methods facilitating this inversion. A more promising approach would be to construct  $P(l)$  and  $P(y|x, l)$  directly from synthetic samples of  $P(x, y, z)$  that can be created to mirror the empirical samples of  $P(x, y, w)$ . This is illustrated in the next subsection, using binary variables.

### 3 Effect Restoration in Binary Models

Let  $X, Y, Z$  and  $W$  be binary variables, and let the noise mechanism be characterized by

$$\begin{aligned} P(W = 0|Z = 1) &= \epsilon \\ P(W = 1|Z = 0) &= \delta \end{aligned}$$

To simplify notation, let the propositions  $Z = 1$  and  $Z = 0$  be denoted by  $z_1$  and  $z_0$ , respectively, and the same for  $W = 1$  and  $W = 0$ , so that  $\epsilon$  and  $\delta$  can be written

$$\begin{aligned} \epsilon &= P(w_0|z_1) \\ \delta &= P(w_1|z_0) \end{aligned}$$

Equation (3) then translates to

$$\begin{aligned} P(x, y, z_0) &= [(1 - \epsilon)P(x, y, w_0) - \epsilon P(x, y, w_1)] / (1 - \epsilon - \delta) \\ P(x, y, z_1) &= [-\delta P(x, y, w_0) + (1 - \delta)P(x, y, w_1)] / (1 - \epsilon - \delta) \end{aligned} \quad (7)$$

which represents the inverse matrix

$$I(w, z) = \begin{bmatrix} 1 - \delta & \epsilon \\ \delta & 1 - \epsilon \end{bmatrix}^{-1} = \frac{1}{1 - \epsilon - \delta} \begin{bmatrix} 1 - \epsilon & -\epsilon \\ -\delta & 1 - \delta \end{bmatrix}$$

Metaphorically, the transformation in (7) can be described as a mass re-assignment process, as if every two cells,  $(x, y, w_0)$  and  $(x, y, w_1)$ , compete on how to split their combined weight  $P(x, y)$  between the two latent cells  $(x, y, z_0)$  and  $(x, y, z_1)$  thus creating a synthetic population  $P(x, y, z)$  from which (4) follows. Figure 2 describes how  $P(w_1|x, y)$ , the fraction of the weight held by the  $(x, y, w_1)$  cell determines the fraction  $P(z_1|x, y)$  that is eventually received by cell  $(x, y, z_1)$ . The complementary fraction,  $1 - P(z_1|x, y)$  is received, of course, by the twin cell  $(x, y, z_0)$ , as shown in Fig. 2.

Clearly, when  $\epsilon + \delta = 1$ ,  $W$  provides no information about  $Z$  and the inverse does not exist. Likewise, whenever any of the synthetic probabilities  $P(x, y, z)$  falls outside the  $(0, 1)$  interval, a modeling constraint is violated (see Pearl (1988, Chapter 8)) meaning that the observed distribution  $P(x, y, w)$  and the postulated error mechanism  $P(w|z)$  are incompatible with the structure of Fig. 1 (see footnote 4). If we assign reasonable priors to  $\epsilon$  and  $\delta$ , the linear function in Fig. 2 will become an  $S$ -shaped curve over the entire  $[0, 1]$  interval, and each sample  $(x, y, w)$  can then be used to update the relative weight  $P(x, y, z_1)/P(x, y, z_0)$ .

To compute the causal effect  $P(y|do(x))$  we need only substitute  $P(x, y, z)$  in Eq. (1), which gives

$$P(y|do(x)) = \frac{P(x, y, w_1)}{P(x|w_1)} \frac{\left[1 - \frac{\delta}{P(w_1|x, y)}\right] \left[1 - \frac{\delta}{P(w_1)}\right]}{1 - \delta P(x)/P(w_1)} + \frac{P(x, y, w_0)}{P(x|w_0)} \frac{\left[1 - \frac{\epsilon}{P(w_0|x, y)}\right] \left[1 - \frac{\epsilon}{P(w_0)}\right]}{1 - \epsilon P(x)/P(w_0)}. \quad (8)$$

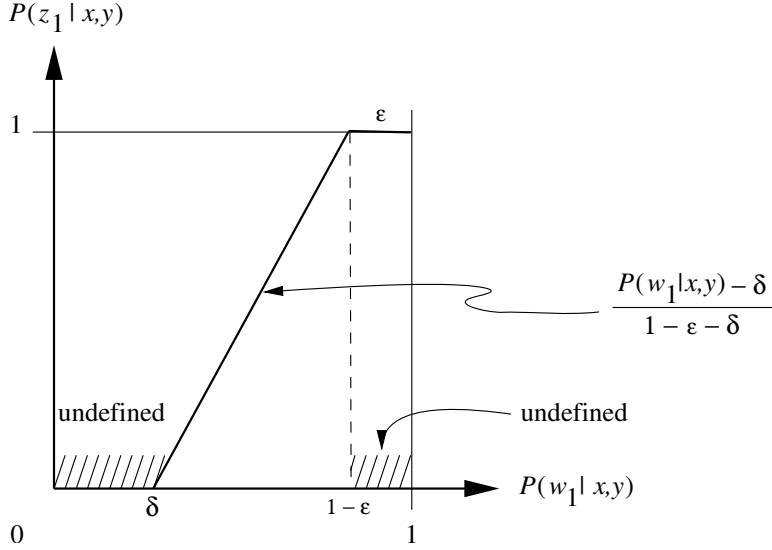


Figure 2: A curve describing how the weight  $P(x, y)$  is distributed to cells  $(x, y, z_1)$  and  $(x, y, z_0)$ , as a function of  $P(w_1|x, y)$ .

This expression highlights the difference between the standard and modified adjustment for  $W$ ; the former (Eq. (1)), which is valid if  $W = Z$ , is given by the standard inverse probability weighting (e.g., Pearl, 2009, Eq. (3.11)):

$$P(y|do(x)) = \frac{P(x, y, w_1)}{P(x|w_1)} + \frac{P(x, y, w_0)}{P(x|w_0)}$$

The extra factors in Eq. (8) can be viewed as modifiers of the inverse probability weight needed for a bias-free estimate. Alternatively, these terms can be used to assess, given  $\epsilon$  and  $\delta$ , what bias would be introduced if we ignore errors altogether and treat  $W$  as a faithful representation of  $Z$ .

The infinitesimal approximation of (8), in the limit  $\epsilon \rightarrow 0, \delta \rightarrow 0$ , reads:

$$\begin{aligned} P(y|do(x)) \cong & \frac{P(x, y, w_1)}{P(x|w_1)} \left[ 1 - \delta \left( \frac{1}{P(w_1|x, y)} - \frac{1 - P(x)}{P(w_1)} \right) \right] \\ & + \frac{P(x, y, w_0)}{P(x|w_0)} \left[ 1 - \epsilon \left( \frac{1}{P(w_0|x, y)} - \frac{1 - P(x)}{P(w_0)} \right) \right] \end{aligned}$$

We see that, even with two error parameters ( $\epsilon$  and  $\delta$ ), and eight cells, the expression for  $P(y|do(x))$  does not simplify to provide an intuitive understanding of the effect of  $\epsilon$  and  $\delta$  on the estimand. Such evaluation will be facilitated in the next example.

## 4 Effect Restoration in Linear Models

Figure 3 depicts a linear version of the structural equation model (SEM) shown in Fig. 1. Here, the task is to estimate the effect coefficient  $c_0$ , while the parameters  $c_3$  and  $var(\epsilon_w)$ , representing the noise mechanism  $W = c_3Z + \epsilon_w$ , are assumed given.



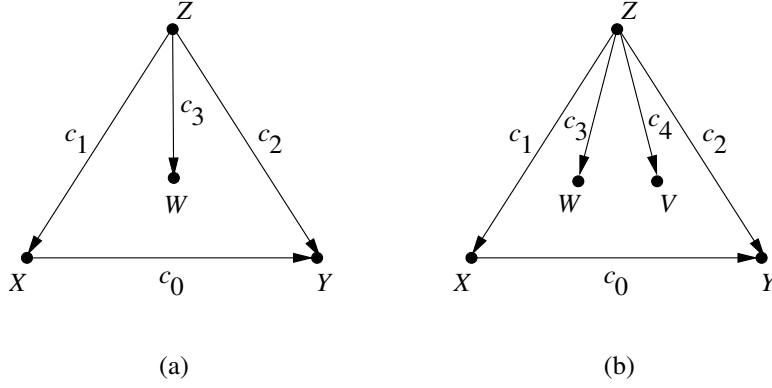


Figure 3: (a) A linear version of the model in Fig. 1. (b) A linear model with two indicators for  $Z$ , permitting the identification of  $c_0$ .

Linear models offer two advantages in handling measurement errors. First, they provide a more transparent picture into the role of each factor in the model. Second, certain aspects of the error mechanism can often be identified without resorting to external studies. This occurs, for example, when  $Z$  possesses two independent indicators, say  $W$  and  $V$  (as in Fig. 3(b)), in which case the product  $c_3^2 \text{var}(Z)$  is identifiable and is given by:

$$c_3^2 \text{var}(Z) = \frac{\text{cov}(XW)\text{cov}(XV)}{\text{cov}(WV)}. \quad (9)$$

As we shall see below, this product is sufficient for identifying  $c_0$ .

Equation (9) follows from Wright's rules of path analysis and reflects the well known fact (e.g., (Bollen, 1989, p. 224)) that, in linear models, structural parameters are identifiable (up to a constant  $\text{var}(Z)$ ) whenever each latent variable (in our case  $Z$ ) has three independent proxies (in our case  $X, W$ , and  $V$ )<sup>6</sup>

Cai and Kuroki (2008) further showed that  $c_0$  is identifiable from measurements of three proxies (of  $Z$ ), even when these proxies are dependent of each other. For example, connecting  $W$  to  $X$  and  $V$  to  $Y$ , still permits the identification of  $c_0$ . Similarly, the reader can verify that adding an arrow from  $W$  to  $V$  in Fig. 3(b) does not hinder the identification of  $c_0$ .

To find  $c_0$  in the model of Fig. 3, we write the three structural equations in the model

$$\begin{aligned} Y &= c_2 Z + c_0 X + \epsilon_Y \\ W &= c_3 Z + \epsilon_W \\ X &= c_1 Z + \epsilon_X \end{aligned}$$

and express the structural parameters in terms of the variances and covariances of the

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<sup>6</sup>This partial identifiability of the so called "factor loadings," is not an impediment for the identification of  $c_0$ . However, if we were in possession of only one proxy (as in Fig. 3(a)) then knowledge of  $c_3$  alone would be insufficient, the product  $c_3^2 \text{var}(Z)$  is required.

observed variables. This gives (after some algebra):

$$c_0 = \frac{\text{cov}(XY) - \text{cov}(XW)\text{cov}(WY)/c_3^2\text{var}(Z)}{1 - \text{cov}^2(XW)/c_3^2\text{var}(Z)} \quad (10)$$

and shows that the pivotal quantity needed for the identification of  $c_0$  is the product

$$c_3^2\text{var}(Z) = c_3^2[\text{var}(W) - \text{var}(\epsilon_W)] \quad (11)$$

If we are in possession of several proxies for  $Z$ ,  $c_3^2\text{var}(Z)$  can be estimated from the data, as in Eq. (9), yielding:

$$c_0 = \frac{\text{cov}(XY)\text{cov}(XV) - \text{cov}(YW)\text{cov}(WV))}{\text{cov}(XV)\text{var}(X) - \text{cov}(XW)\text{cov}(WV)} \quad (12)$$

If however  $Z$  has only one proxy,  $W$ , as in Fig. 3(a), the product  $c_3^2\text{var}(Z)$  must be estimated externally, using either a pilot study or judgmental assessment.

The decomposition on the right hand side of Eq. (11) renders the judgmental assessment of that product cognitively meaningful, since both  $c_3$  and  $\epsilon_W$  are causal parameters of the error mechanism

$$W = c_3Z + \epsilon_W,$$

$c_3 = E(W|z)/z$  measures the slope with which the average of  $W$  tracks the value of  $Z$ , while  $\text{var}(\epsilon_W)$  measures the dispersion of  $W$  around that average.  $\text{var}(W)$  can, of course be estimated from the data.

Under a Gaussian distribution assumption,  $c_3$  and  $\text{var}(\epsilon_W)$  fully characterize the conditional density  $f(w|z)$  which, according to Section 2, is sufficient for restoring the joint distribution of  $x, y$ , and  $z$ , and thus secure the identification of the causal effect, through (1). This explains why the estimation of  $c_3$  alone, be it from experimental data or our understanding of the physics behind the error process, is not sufficient for neutralizing the confounder  $Z$ . It also explains why the technique of “latent factor” analysis (Bollen, 1989) is sufficient for identifying causal effects, even though it fails to identify the “factor loading”  $c_3$  separately of  $\text{var}(Z)$ .

In the noiseless case, i.e.,  $\text{var}(\epsilon_W) = 0$ , we have  $\text{var}(Z) = \text{var}(W)/c_3^2$  and Eq. (11) reduces to:

$$c_0 = \frac{\text{cov}(XY) - \text{cov}(XW)\text{cov}(WY)/\text{var}(W)}{1 - \text{cov}^2(XW)/\text{var}(W)} = \frac{\beta_{yx} - \beta_{yw}\beta_{wx}}{1 - \beta_{xw}^2} = \beta_{yx \cdot w} \quad (13)$$

where  $\beta_{yx \cdot w}$  is the coefficient of  $x$  in the regression of  $Y$  on  $X$  and  $W$ , or:

$$\beta_{yx \cdot w} = \partial/\partial_x E(Y|x, w)$$

As expected, the equality  $c_0 = \beta_{yx \cdot z} = \beta_{yx \cdot w}$  assures a bias-free estimate of  $c_0$  through adjustment for  $W$ , instead of  $Z$ ;  $c_3$  plays no role in this adjustment.

In the error-prone case,  $c_0$  can be written

$$c_0 = \frac{\beta_{yx} - \beta_{yw}\beta_{wx}/k}{1 - (\beta_{xw}/k)^2}$$

where

$$k = 1 - \text{var}(\epsilon_W)/\text{var}(W)$$

and, as the formula reveals,  $c_0$  cannot be interpreted in terms of an adjustment for a surrogate variable  $V(W)$ .

The strategy of adjusting for a surrogate variables has served as an organizing principle for many studies in traditional measurement error analysis (Carroll et al., 2006). For example, if one seeks to estimate the coefficient  $c_1 = E(X|z)/z$  through a proxy  $W$  of  $Z$ , one can always choose to regress  $X$  on another variable,  $V$ , such that the slope of  $X$  on  $V$ ,  $E(X|v)/v$ , would yield an unbiased estimate of  $c_1$ . In our example of Fig. 3, one should choose  $V$  to be the best linear estimate of  $Z$ , given  $W$ , namely  $V = \alpha W$ , where

$$\alpha = \text{Cov}(ZW)/\text{var}(W) = c_3 \text{var}(Z)/\text{var}(W)$$

is to be estimated separately, from a pilot study. However, this Two Stage Least Square strategy is not applicable in adjusting for latent confounders; i.e., there is no variable  $V(W)$  such that  $c_0 = \beta_{yx \cdot v}$ .

## 5 Model Testing with Measurement Error

When variables are measured without error, a structural equation model can be tested and diagnosed systematically by examining how well the data agrees with each statistical constraint that the model imposes on the joint distribution (or covariance matrix). The most common type of these constraints are conditional independence relations (or zero partial correlations), and these can be read off the causal diagram through the  $d$ -separation criterion (Pearl, 2009, pp. 335–7). For each missing edge in the diagram, say between  $X$  and  $Y$ , the model dictates the conditional independence of  $X$  and  $Y$  given a set  $Z$  of variables that  $d$ -separates  $X$  from  $Y$  in the diagram; these independencies can then be tested individually and systematically to assure compatibility between model and data before parameter identification commences.

When  $Z$  suffers from measurement errors (as in Fig. 1) those conditional independencies are not testable, since the proxies of  $Z$  no longer  $d$ -separate  $X$  from  $Y$ . The question arises whether surrogate tests exist through the available proxies, to detect possible violations of the missing-edge postulate. The preceding section suggests such tests, provided we know (or can estimate) the parameters of the error process.

This is seen by substituting  $c_0 = 0$  in Eq. (10), and accepting the vanishing of the numerator as a surrogate test for  $d$ -separation between  $X$  and  $Y$ :

**Theorem 1** *If a latent variable  $Z$   $d$ -separates two measured variables,  $X$  and  $Y$ , and  $Z$  has a proxy  $W$ ,  $W = cZ + \epsilon_W$ , then  $\text{cov}(XY)$  must satisfy:*

$$\begin{aligned} \text{cov}(XY) &= \text{cov}(XW)\text{cov}(WY)/c^2\text{var}(Z) \\ &= \text{cov}(XW)\text{cov}(WY)/[\text{var}(W) - \text{var}(\epsilon_W)] \end{aligned} \tag{14}$$

We see that the usual condition of vanishing partial regression coefficient is replaced by a modified condition, in which  $c^2 \text{var}(Z)$  needs to be estimated separately (as in Fig. 3(b)). If the product  $c^2 \text{var}(Z)$  is estimated from other proxies of  $Z$ , as in Fig. 3(b), Eq. (14) assumes the form of a TETRAD condition (Bollen, 1989, p. 304)

$$\text{cov}(XY) = \text{cov}(VW)\text{cov}(WY)/\text{cov}(XV)$$

Cai and Kuroki (2008) derive additional conditions under which this constraint applies to multivariate sets of confounders and proxies.

Equation (14) can also be written

$$\text{cov}[Y(X - W\text{cov}(XW))]/[\text{var}(W) - \text{var}(\epsilon_W)] \quad (15)$$

which provides an easy test of (12), in the style of Two Stage Least Square:

1. estimate  $\alpha = \text{var}(W) - \text{var}(\epsilon_W)$  (using a pilot study or auxiliary proxy variables)
2. collect samples  $X_i, Y_i, W_i \quad i = 1, 2, 3, \dots, n$
3. estimate  $c_1 = \text{cov}(XW)$
4. Translate the data into fictitious samples  $X_i, V_i \quad i = 1, 2, 3, \dots, n$  with  $V_i = X_i - \text{cov}(XW)/\alpha W_i$
5. Compute (by Least Square) the best fit coefficient  $a$  in  $X_i = aV_i + e_i$
6. Test if  $a = 0$ . If  $a$  vanishes with sufficiently high confidence, then the data is compatible with the  $d$ -separation condition  $X \perp\!\!\!\perp Y|Z$ .

Theorem 1 can be generalized to include missing edges between latent variables, as well as between latent and observed variables. In fact, if the graph resulting from filling in a missing edge permits the identification of the corresponding edge coefficient  $c$ , then the original graph imposes a statistical constraint on the covariance matrix that can be used to test the absence of that edge. Such tests should serve as model-diagnostic tools, before (or instead) of submitting the entire model to a global test of fitness.

## 6 Conclusions

The paper discusses computational and representational problems connected with effect restoration when confounders are mismeasured or misclassified. In particular, we have explicated how measurement bias can be removed by creating synthetic samples from empirical samples, and how inverse-probability weighting can be modified to account for measurement error. Subsequently, we have analyzed measurement bias in linear systems and explicated graphical conditions under which such bias can be removed.

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